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KEYNOTE ADDRESS

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Chairman Braumuller,
Secretary General Kawai,
Members of the IAIS,
Distinguished guests, and
Ladies and gentlemen

I am pleased to join you here in Dubai. I would first like to thank Chief Executive Koster and DFSA for organizing such a superb conference this year.

The financial crisis following the collapse of Lehman Brothers two years ago was widely cited as the worst since the Great Depression that left deep scars. However, it is no accident that we are now grappling with a post-crisis recession, not a depression.

To a significant extent, the relative success of the post-crisis global recovery can be attributed to the leadership of the G20 in coordinating pro-growth policies. The G20 also gave the assurance to the market that problems that led to the crisis would be dealt with. With global economic recovery now under way, the focus of G20 is shifting to crisis prevention and regulatory reform for safer, more resilient global financial system.

For the insurance industry, the general assessment is that it has fared better than other financial industries with prudent asset management and sound insurance supervision. In fact, in many instances, we saw insurance mitigating the crisis and providing crucial safeguards by removing uncertainties that got in the way of productive market activities.

However, the uncontrolled exposures of some of the largest insurance groups to credit default swaps and other unsupervised activities did demonstrate a need for stronger, more effective oversight. The IAIS is responding to such shortcomings by undertaking the “Com Frame” project for more consistent approach to supervision of internationally active insurance groups. It has also formed Financial Stability Committee to coordinate IAIS activities with the Financial Stability Board and the G20.

Given the multilateral nature of the regulatory reform agenda now taking shape, I thought I would look ahead to the G20 Seoul Summit next month and take stock of the key issues and challenges we must tackle together.

Let me first turn to the reform agenda for the upcoming G20 summit.
Only a month earlier, bank regulators met in Basel and agreed on bank capital and liquidity regulations.

Although the agreement applies to banking institutions, it is still noteworthy that regulators with a broad spectrum of concerns set aside their differences and re-affirmed their commitment to fundamental reform to safeguard the financial system.

We of course have to be mindful of the fact that this is but one of many steps we will need to take together. On a positive note, there is now growing confidence that the reform efforts that started two years ago at the G20 Summit in Washington will be concluded at the Seoul Summit next month.

First, regulators expect to see firm agreement on bank capital and liquidity regulations at the Seoul meeting. Under the reform package, bank capital is to be built around common equity with more and higher-quality capital to enhance the loss-absorbing capacity of banks.

For macroprudential soundness, the reform package also calls for capital conservation buffer against future stress and counter-cyclical buffer to mitigate sharp credit expansion and contraction. New rules on leverage and liquidity are to be introduced as well to prevent excessive borrowing and risk-taking.

Unlike the banking sector, the insurance sector as a whole has weathered the storm with little or no significant risk to the financial system. So the sense of urgency regulators had about global banking reform does not extend to insurance reform.

However, as noted during the first session discussion, the insurance industry, like others, is vulnerable to systemic risks. So, as discussions on macroprudential soundness and supervision move forward, I believe it will be instructive to look at how bank regulators dealt with the systemic aspects of banking supervision.

Another key issue up for discussion at the Seoul Summit is regulatory framework for systemically important financial institutions, those often deemed too big to fail. To date, proposals on the table range from capital surcharge, to resolution regimes to minimize systemic disruption and taxpayer losses, to stricter regulatory oversight.

Progress is also being made on OTC derivatives and credit-rating oversight. With respect to regulation on OTC derivatives trading, we expect to see concrete proposals on central counterparties and trade repositories that came out of the G20 Summit in Pittsburgh last year. For shortcomings related to credit rating, there are ongoing discussions on reducing the over-reliance of regulators and financial firms on credit rating agencies and preventing cliff effect associated with abrupt securities downgrading.

I would like to add that, as the chair of G20 in November, Korea is fully committed to building a strong consensus on the reform agenda and sustaining the momentum for future reforms.

Ladies and gentlemen,

There is no question that we need better regulation. But we also know that regulation alone will not be sufficient in building a stronger, more credible financial system.

I would first argue that financial regulations must help restore not only the safety of the financial system but also the balance between financial markets and the broader economy. Questions over the fiscal soundness of some Euro-zone countries and slower-than-expected global economic recovery clearly point to some important post-crisis policy challenges.

One will be to strike the right balance with the regulatory reform so that it does not threaten financial stability or prolong the sluggish global economic growth. This is in fact what bank regulators strived for with the extended phase-in for the implementation of the new capital and liquidity rules.

I may also note that solvency margin requirements for life insurance companies were phased in over four years in Korea when they were first introduced in late 1990s to improve capital soundness. This was a time of extensive corporate restructuring in Korea. So the gradual phase-in not only helped mitigate the impact of the new soundness rules on the insurance industry but also improved the financial soundness of insurance companies.

Second, I believe we can better ensure the success of our regulatory reform by striking the right balance between the individual need for flexibility and the collective need for consistency.

That is, given the different stages of financial market development across countries—as well as dissimilar market realities and risk characteristics—it does not seem wise to insist on a single set of rules for all. On the other hand, the complex, interconnected nature of today's global markets, common risk exposures, and the threat of cross-border contagion call for much greater regulatory harmonization than before.

So it is certainly a difficult balancing act that requires sound judgment from all of us on what the future regulatory landscape should look like. The theme for 2011 annual conference is "Toward a New Horizon for Insurance Supervision: Cross-Sector and Cross-Border Harmonization and Cooperation." And it is my hope that we will shed further light on this important issue the next time we meet in Seoul.

Third, no regulatory reform will be successful without compliance and enforcement. Indeed, we shouldn't expect to reap the benefits of regulatory reform without undertaking earnest efforts to encourage compliance. And it should come as no surprise that effective enforcement from regulators is central to the success of global regulatory reform.

Lastly, I would point to the need to bring more emerging market countries and others not part of the G20 to the reform debate. We know these countries contribute significantly to global economic growth and often end up as the favored destination for portfolio investment. So it would be difficult to justify global regulatory reform and unrealistic to expect its wide acceptance without the participation and support of these countries.

Korea recognizes this and has invited five non-G20 countries—Ethiopia, Malawi, Spain, Singapore, and Vietnam—to the Seoul Summit next month. Korea is also looking to bridge the gap between the emerging and the developed countries and bring the perspectives of emerging economies to the table. It is doing so at the G20 by including Global Financial Safety Net and Development in the G20 agenda.

Ladies and gentlemen,

I would like to close my speech with an Arab proverb that Paulo Coelho cites in his novel "the Alchemist":

"Everything that happens once can never happen again. But everything that happens twice will surely happen a third time."

We have had recurring financial crises in the past. But if we successfully carry out the ongoing regulatory reform, we can minimize not only the chance of a recurring crisis, but also its impact.

I believe it is no accident that Korea made a swift recovery from the latest crisis following nearly a decade of bold regulatory reform that began in the wake of the 1997 financial crisis. Korea's experience is a testimony to the benefits we can reap with strong and meaningful regulatory reform.

This is in fact what we are aiming for at the Seoul Summit next month. And I very much look forward to meeting you in Seoul next year to celebrate the success of our regulatory reform.

Thank you.